

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2011-271-E

In the Matter of)	SETTLEMENT
Application of Duke Energy Carolinas, LLC)	TESTIMONY OF
For Authority to Adjust and Increase)	CATHERINE HEIGEL,
Its Electric Rates and Charges)	DUKE ENERGY CAROLINAS, LLC

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Catherine E. Heigel. My business address is 40 W. Broad Street,
4 Greenville, South Carolina, 29601.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am President of Duke Energy Carolinas, LLC (“Duke Energy Carolinas” or
7 “Company”) for South Carolina.

8 **Q. DID YOU PREVIOUSLY FILE DIRECT AND REBUTTAL TESTIMONY**
9 **IN SUPPORT OF DUKE ENERGY CAROLINAS’ APPLICATION IN THIS**
10 **DOCKET?**

11 **A.** Yes. I filed testimony in support of the Company’s August 5, 2011 Application
12 requesting authority to adjust and increase its retail electric rates, charges, and tariffs.
13 In the Application, the Company detailed the fact that it had made capital
14 investments in its electric system for plant modernization, environmental compliance
15 and capital additions totaling approximately \$6.5 billion since the conclusion of the
16 last rate case. The Company sought approximately \$216 million in additional
17 revenue at an 11.5% Return on Equity (“ROE”), which equated to an overall
18 increase to customers of 15%. The Company requested that the proposed increases
19 be effective on or after February 6, 2012.

20 **Q. WHAT IS THE PURPOSE OF YOUR CURRENT TESTIMONY?**

21 **A.** The purpose of my testimony is to present and support the Settlement Agreement
22 that the Company, the Commission of Public Works of the City of Spartanburg
23 South Carolina and Spartanburg Sanitary Sewer District (“Spartanburg”), and the

1 Office of Regulatory Staff (“ORS”) (collectively, the “Settling Parties”) have agreed
2 upon.

3 **II. OVERVIEW OF THE SETTLEMENT AGREEMENT**

4 **Q. PLEASE PROVIDE A FINANCIAL OVERVIEW OF THE SETTLEMENT**
5 **AGREEMENT.**

6 A. As fully described in the Settlement Agreement between the Settling Parties, which
7 is attached hereto as Heigel Settlement Exhibit 1, base rates shall be set initially to
8 generate a revenue increase of \$90,654,000 from the Company’s South Carolina
9 retail electric operations. If Buck Steam and Bridgewater Hydro Stations are placed
10 in service by the beginning of the rate case hearing on December 7, 2011, the
11 Settlement Agreement provides that base rates shall be increased by an additional
12 \$1,807,000 for Buck Steam Station and \$383,000 for Bridgewater Hydro Station.
13 Rates shall be set using an ROE of 10.5% and the debt to equity ratio within the
14 Company’s capital structure shall be 47% to 53%. The Settlement Agreement
15 allows for an average rate increase to the Company’s South Carolina retail
16 customers of 5.8%, effective on or after February 6, 2012

17 In addition to the foregoing terms, the Settlement Agreement provides the
18 Company with the opportunity to seek rate updates for specified capital additions in
19 2013 and 2014 (“Capital Additions Update”). The subject capital additions are set
20 forth in Attachment C to the Settlement Agreement. In consideration of this
21 opportunity, the Company agrees not to file for a general rate increase prior to
22 August 2014. More specifically, the parties agree to request that the case docket be
23 held open for a period of two years from February 6, 2012, to allow for the

1 Company's base rates to be updated in two phases, Phase I (2.74% increase) – no
2 earlier than February 6, 2013; and Phase II (2.07% increase) – no earlier than
3 February 6, 2014, for known and measurable capital additions. The Settling Parties
4 have agreed that such rate updates for the identified capital additions may not
5 increase South Carolina jurisdictional revenues by more than \$45 million in Phase I,
6 and the combined revenue increase for both phases shall not exceed \$80 million.

7 **Q. PLEASE COMMENT ON THE SETTLEMENT AGREEMENT.**

8 A. The Company believes the Settlement Agreement represents a just and reasonable
9 resolution of the issues presented in this case. The agreed-upon resolution of issues
10 does not necessarily reflect specific positions asserted by Duke Energy Carolinas or
11 ORS, or the respective positions either party would take if this matter were fully-
12 litigated. Rather, the Settlement Agreement represents a compromise of a complex
13 set of issues. Thus, the various provisions of the Settlement Agreement are
14 interrelated and it is important that the Settlement Agreement be accepted in its
15 entirety. The Settlement Agreement provides that it is binding upon the Settling
16 Parties only if the entire agreement is approved by the Commission.

17 The Settlement Agreement reflects a constructive approach to providing
18 necessary rate relief that will allow the Company to maintain its financial strength
19 and credit quality and continue to provide reliable, environmentally compliant
20 electricity at reasonable cost for customers. Through the Capital Additions Update,
21 the Settlement Agreement also provides needed rate certainty for customers into
22 2013 and 2014. The Capital Additions Update limits customer increases for known

1 capital projects while maintaining the Company's ability to attract the capital needed
2 at favorable rates to complete those important projects.

3 **Q. DOES THE SETTLEMENT AGREEMENT BALANCE THE COMPANY'S**
4 **NEED FOR RATE RELIEF WITH THE IMPACT OF SUCH RATE RELIEF**
5 **ON CUSTOMERS?**

6 A. Yes, it does. The Company understands that many of its customers continue to be
7 impacted by the current state of the economy. Recognizing this impact, the
8 Settlement Agreement provides that Duke will make a one-time shareholder
9 contribution to AdvanceSC in the amount of \$4 million to be used to fund Share
10 the Warmth and other public assistance programs, manufacturing competitiveness
11 grants, economic development and/or education/workforce training programs.

12 Also, we have undertaken capital expenditures required to modernize our
13 fleet and comply with environmental regulations. These steps will help ensure the
14 Company is well positioned to continue to provide electricity to our customers at
15 reasonable costs well into the future. Further:

- 16 • The Company has agreed to additional revenues that are approximately 60%
17 less than what we have contended the evidence in the record would support.
 - 18 • Construction Work in Progress in rate base stemming from the construction
19 of the new Dan River Combined Cycle units will be delayed for one year as
20 a means of phasing in the impact of the overall rate increase on customers.
- 21 We continue to believe that the "pay as you go" approach is critical to
22 funding the future resource needs of our customers, but believe the
23 mitigation this delay provides to customers is important at this time.

- The Bulk Power Marketing profit sharing arrangement will shift from the Company and AdvanceSC each receiving 50% of the Company's profits derived from off-system bulk power sales to AdvanceSC receiving 50%, customers receiving 40%, and the Company receiving 10% of such profits.
- The Capital Additions Update provides certainty for 2013 and 2014 in terms of rate increases for the Company's modernization and regulatory compliance program.
- Finally, the Settlement Agreement's prohibition against the Company's requesting a general rate increase prior to August, 2014; with rates effective no earlier than Feb. 2015, provides customers with a benefit, as the Company had anticipated filing additional rate cases in 2012 and 2013.

Because the Settlement Agreement balances the need for rate relief and the impact of the rate relief on customers as described above, the Company recommends and requests that the Commission approve the Settlement Agreement and incorporate it in its Final Order in these proceedings.

III. CONCLUSION

Q. IS THE COMPANY PRESENTING TESTIMONY OF OTHER WITNESSES IN SUPPORT OF THE SETTLEMENT AGREEMENT?

A. Yes. Duke Energy Carolinas' Witnesses Carol Shrum and Bob Hevert are also presenting testimony in support of the Settlement Agreement. Witness Shrum explains the rate making and accounting aspects of the Settlement Agreement, as

1 well as the impact on customers. Witness Hevert supports the ROE to which the
2 Settling Parties have agreed.

3 **Q. DOES THIS CONCLUDE YOUR PREFILED SETTLEMENT**
4 **TESTIMONY?**

5 A. Yes, it does.

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2011-271-E

In the Matter of)	SETTLEMENT
Application of Duke Energy Carolinas, LLC)	TESTIMONY OF
For Authority to Adjust and Increase)	CATHERINE HEIGEL,
Its Electric Rates and Charges)	DUKE ENERGY CAROLINAS, LLC

HEIGEL SETTLEMENT EXHIBIT 1

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-271-E
November 30, 2011

IN RE: Application of Duke Energy Carolinas, LLC)
for Authority to Adjust and Increase Its)
Electric Rates and Charges)

SETTLEMENT
AGREEMENT

This Settlement Agreement (“Settlement Agreement”) is made by and among the South Carolina Office of Regulatory Staff (“ORS”), the Commission of Public Works of the City of Spartanburg South Carolina and Spartanburg Sanitary Sewer District (“Spartanburg”), and Duke Energy Carolinas, LLC (“Duke” or the “Company”) (collectively referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, the Company has prepared and filed an Application for Authority to Adjust and Increase Its Electric Rates and Charges (the “Application”) seeking an adjustment to its rates, charges, and tariffs set out in its rate schedules for the provision of electric service;

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (the “Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-27-810 *et seq.* (Supp. 2010), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2010);

WHEREAS, ORS has conducted an examination of the books and records of the Company relative to the matters raised in the Application; to test-period revenues, operating expenses, depreciation and taxes paid by the Company; to rate base, plant in service, construction work in progress, working capital, and capital expenditures; and to other relevant accounting matters;

WHEREAS, ORS also has examined all accounting and pro forma adjustments proposed by the Company in the Application, as well as the Company's cost of service study and rate design, and information related to the Company's operations;

WHEREAS, ORS has examined the Company's capital structure and cost of capital;

WHEREAS, the Parties have varying positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, the Parties have determined that their interests, and ORS has determined that the public interest, would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and charges that are lawful, just, reasonable, and supported by the evidence of the record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

**STIPULATION OF SETTLEMENT AGREEMENT, TESTIMONY AND WAIVER OF
CROSS-EXAMINATION**

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement.

2) The Parties agree to stipulate into the record before the Commission the pre-filed testimony and exhibits (collectively, the “Stipulated Testimony”) of the following witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Parties also reserve the right to engage in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses, if any, by non-Parties or by late-filed testimony by non-Parties.

Duke witnesses:

1. Catherine E. Heigel (direct, rebuttal and settlement)
2. Jeffrey R. Bailey (direct, supplemental and rebuttal)
3. Stephen G. DeMay (direct and rebuttal)
4. Robert B. Hevert (direct, rebuttal and settlement)
5. Dhiaa M. Jamil
6. Jane L. McManeus
7. Carol E. Shrum (direct, rebuttal and settlement)
8. Jim L. Stanley
9. Phillip O. Stillman (direct and rebuttal)
10. J. Danny Wiles
11. Barbara Yarbrough (rebuttal – confidential and public)

ORS witnesses:

1. M. Anthony James
2. Leigh C. Ford
3. Douglas H. Carlisle, PhD (as Revised 11/15/11)
4. Henry N. Webster, II
5. Christina Stutz
6. Sharon G. Scott (as Revised 11/15/11)

TERMS

3) In its Application, the Company sought approval of a return on common equity ("ROE") of 11.5% and requested a revenue increase of approximately \$216,000,000. As a compromise, the Parties stipulate and agree to a 10.5% return on common equity and a revenue increase of \$90,654,000 with the increase based on the accounting and pro forma adjustments shown on Exhibits SGS-1 and SGS-2 to the testimony of ORS witness Scott and appended to this Settlement Agreement as Attachment A.

4) The Parties agree that the \$90,654,000 revenue increase will be allocated among the rates and customer classes as shown on Exhibits MAJ-1 and MAJ-2 to the testimony of ORS witness James and appended to this Settlement Agreement as Attachment B. Attachment B sets forth the proposed rate increases by customer class, as well as the respective rates of return by customer class. The rates are designed to recover the revenue requirement in an equitable and reasonable manner. In addition, the proposed allocations in Attachment B are just and reasonable.

5) The Parties agree that if the Duke generating plants Buck and/or Bridgewater are placed into service and booked to plant in service by the beginning of the rate case hearing starting December 7, 2011, revenues shall be increased for the South Carolina portion, excluding Greenwood, by an additional \$1,807,000 for Buck and \$383,000 for Bridgewater and allocated in the same manner as set forth in Attachment B. This increase is conditioned upon a confirmation by ORS that the plants are in service.

6) The Parties agree to accept all proposals and recommendations put forth in ORS's testimony. The remaining proposals contained in the Application and Stipulated Testimony of

Duke which do not conflict with ORS's Stipulated Testimony are incorporated by reference into this Settlement Agreement except as otherwise changed by this Settlement Agreement.

7) The Parties agree that Duke shall make a one-time shareholder contribution to AdvanceSC in the amount of \$4 million to be used to fund Share the Warmth and other public assistance programs, manufacturing competitiveness grants, economic development and/or education/workforce training programs.

8) Duke has indicated its intent to file a general base rate case in 2012 pursuant to S.C. Code Ann. § 58-27-810 *et seq.* (Supp. 2010). In lieu of filing a request for a general base rate increase, Duke has agreed to seek base rate coverage for specific capital additions as set forth in the procedure below. The Parties agree to support the following procedure and terms before the Commission:

- a. The Parties request that the case docket, 2011-271-E, be held open for a period of two (2) years from February 6, 2012 to allow for base rates to be updated in two phases, Phase I and Phase II, for known and measurable capital additions. The combined South Carolina jurisdictional revenue increase that may be sought for Phase I and Phase II may not exceed \$80 million in total for the two phases. In no event shall the revenue request for the capital additions update seek more than \$45 million (a 2.74% increase) for Phase I. The revenue increase will be allocated using the overall percentage increase applied equally among the rates and customer classes.
- b. The capital additions which may be included in the Phase I and Phase II update are set forth in Attachment C to this Settlement Agreement. The increases will be reflected as increases to the Plant in Service and Construction Work in

Progress accounts along with the project-related impact to depreciation expense, property taxes, and operation and maintenance expense. The Company agrees not to seek revenue coverage on any other accounts or items in Phase I or Phase II.

c. Phase I and Phase II may only be implemented after (a) the Company makes such a request before the Commission, (b) ORS reviews the costs in the Company's request and submits the results of its review to the Commission, and (c) the Commission approves the request. Duke agrees to provide ORS all relevant information on a continuing basis so that ORS's audit may be completed in a timely manner.

d. Duke Energy Carolinas, LLC may seek an effective date for Phase I and Phase II rate adjustments no earlier than February 2013 and 2014, respectively. The February effective date shall be the same February date any 2012 rates become effective. In no event may Duke seek revenue coverage for capital additions in Phase I or Phase II less than twelve (12) months from a prior base rate increase.

e. In consideration of the other Parties' support for the following procedure and the opportunity to seek a maximum of \$80,000,000 in revenue, Duke shall not seek an increase in its non-fuel base rates and charges, excluding Phase I and Phase II, prior to August 2014. Duke also agrees not to utilize a test year earlier than 2013.

9) The above terms do not prohibit the Company from seeking an annual fuel adjustment as allowed by S.C. Code Ann. 58-27-865 (Supp. 2010) or an adjustment to its energy efficiency rider as allowed by Commission Order No. 2010-79, in Docket No. 2009-226-

E. The terms also do not prohibit the Company from seeking in subsequent rate cases all capital

invested in the projects listed on Attachment C not recovered in Phases I and II as described above.

REMAINING TERMS AND CONDITIONS

10) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding, and to take no action inconsistent with its adoption by the Commission.

11) The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission in its entirety. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12) The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery or rates of return that any Party may seek or advocate in any future proceeding. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

13) The Parties agree that nothing in this Agreement shall affect, impact or change rates currently being charged by Duke Energy Carolinas to certain ratepayers in Greenwood, South Carolina under the provisions of 1966 Act 1293 and Duke Power Co. v. S. C. Pub. Serv. Comm'n, 284 S.C. 81, 326 S.E.2d 395 (1985).

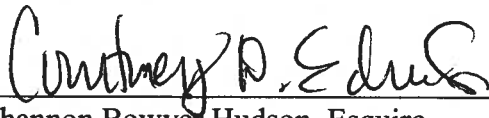
14) The Parties agree that the revenue increase addressed in this Settlement Agreement is not connected to any cost associated with the Company's proposed Lee Nuclear Station or the merger of the Company with Progress Energy Carolinas, Inc.

15) This Settlement Agreement shall be interpreted according to South Carolina law.

16) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement, by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff



Shannon Bowyer Hudson, Esquire

Courtney D. Edwards, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0889

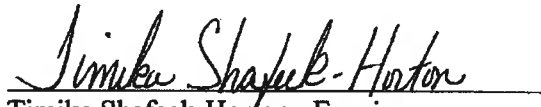
(803) 737-8440

Fax: (803) 737-0895

Email: shudson@regstaff.sc.gov

Email: cedwards@regstaff.sc.gov

Representing Duke Energy Carolinas, LLC



Timika Shafeek-Horton, Esquire

Charles A. Castle, Esquire

Duke Energy Carolinas, LLC

550 South Tryon Street, DEC 45 A

Charlotte, NC, 28202

Email: timika.shafeek-horton@duke-energy.com

Email: alex.castle@duke-energy.com

Phone: 704-382-6373

Fax: 704-382-8173

Frank R. Ellerbe, III, Esquire

Bonnie D. Shealy, Esquire

Robinson McFadden & Moore, PC

Post Office Box 944

Columbia, SC, 29202

Phone: 803-779-8900

Fax: 803-252-0724

Email: fellerbe@robinsonlaw.com

Email: bshealy@robinsonlaw.com

November 28 @ 1:00 pm

**Representing the Commission of Public Works of the City of Spartanburg, South Carolina
& Spartanburg Sanitary Sewer District**

A handwritten signature in black ink, appearing to read "R. L. Whitt". The signature is written in a cursive, flowing style.

Richard L. Whitt, Esquire

Timothy F. Rogers, Esquire

Austin & Rogers, P.A.

Post Office Box 11716

Columbia , SC, 29201

Email: rlwhitt@austinrogerspa.com

Email: tfrogers@austinrogerspa.com

Phone: 803-251-7442

Fax: 803-252-3679

Duke Energy Carolinas, LLC
Operating Experience, Rate Base and Rate of Return
Total and Retail Electric
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E

		SOUTH CAROLINA RETAIL ELECTRIC EXCLUDING GREENWOOD - Note 1					
		(1)	(2)	(3)	(4)	(5)	(6)
		TOTAL ELECTRIC - NC & SC					
		(1)	(2)	(3)	(4)	(5)	(6)
		(000's Omitted)					
Line No.	Description	Total Company Per Books	Retail Per Books	ORS Accounting & Pro Forma Adjustments	After ORS Accounting & Pro Forma Adjustments	ORS Proposed Increase	After Proposed Increase
1	<u>Operating Revenues</u>	\$ 6,374,883	\$ 1,547,545	\$ 37,188	\$ 1,584,733	\$ 90,654	\$ 1,675,387
2	<u>Operating Expenses:</u>						
3	Fuel Used in Electric Generation	\$ 1,714,513	\$ 426,286	\$ 31,870	\$ 458,156	\$ 0	\$ 458,156
4	Purch. Pwr. & Net Interch. (Non-Fuel)	246,128	62,309	2,946	65,255	0	65,255
5	Wages, Benefits, & Materials	1,871,975	453,244	(61,828)	391,416	0	391,416
6	Depreciation & Amortization	736,855	179,512	37,402	216,914	0	216,914
7	General Taxes	346,119	71,295	3,786	75,081	411	75,492
8	Interest on Customer Deposits	5,385	848	0	848	0	848
9	Income Taxes	443,012	107,673	3,321	110,994	34,518	145,512
10	Amort. of Investment Tax Credit	(7,418)	(1,752)	0	(1,752)	0	(1,752)
11	<u>Total Operating Expenses</u>	\$ 5,356,569	\$ 1,299,215	\$ 17,497	\$ 1,316,712	\$ 34,929	\$ 1,351,641
12	<u>Operating Income</u>	1,018,314	248,330	19,691	268,021	55,725	323,746
13	<u>Add: Customer Growth</u>	0	0	470	470	98	568
14	<u>Net Operating Income for Return</u>	\$ 1,018,314	\$ 248,330	\$ 20,161	\$ 268,491	\$ 55,823	\$ 324,314
15	<u>Rate Base:</u>						
16	Gross Plant in Service	\$ 27,369,023	\$ 6,301,990	\$ 189,946	\$ 6,491,936	\$ 0	\$ 6,491,936
17	Less: Accum. Depr. & Amort.	(12,472,241)	(2,777,681)	(9,475)	(2,787,156)	0	(2,787,156)
18	Net Plant in Service	14,896,782	3,524,309	180,471	3,704,780	0	3,704,780
19	Add: Materials & Supplies	723,664	175,272	5,246	180,518	0	180,518
20	Working Capital Investment	1,156,578	264,212	(3,745)	260,467	0	260,467
21	Plant Held for Future Use	3,127	795	0	795	0	795
22	Less: Accumulated Deferred Taxes	(3,403,196)	(839,412)	(35,682)	(875,094)	0	(875,094)
23	Operating Reserves	(372,786)	(93,923)	13,368	(80,555)	0	(80,555)
24	Customer Deposits	(86,477)	(18,609)	0	(18,609)	0	(18,609)
25	Add: Construction Work In Progress	988,455	241,644	587,978	829,622	0	829,622
26	<u>Total Rate Base</u>	\$ 13,906,147	\$ 3,254,288	\$ 747,636	\$ 4,001,924	\$ 0	\$ 4,001,924
27	<u>Rate of Return</u>	7.32%	7.63%		6.71%		8.10%
28	<u>Return on Common Equity</u>		9.62%		7.88%		10.50%

Note 1 - Greenwood County Electric Power Commission Operations are excluded from revenues and cost of service.

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Duke Retail Electric	ORS Retail Electric	ORS Retail Tax Adjustment
(A) <u>Electric Operating Revenues</u>					
1	1	To normalize for weather	\$ (88,422)	\$ 0	\$ 0
8	2	Eliminate Unbilled Revenues	(10,935)	(10,935)	(4,183)
13	3	Annualize revenues for current rates	47,451	47,451	18,150
	4	To include bulk power marketing profits	0	2,070	792
	6	To eliminate pension rider revenue	0	(1,398)	(535)
		Total Operating Revenues	\$ (29,908)	\$ 37,188	\$ 14,224
(B) <u>Fuel Used in Electric Generation</u>					
1	6	To normalize for weather	\$ (28,646)	\$ 0	\$ 0
15	7	Update fuel costs to proposed rate	31,870	31,870	(12,190)
		Total Fuel Used in Electric Generation	\$ 3,224	\$ 31,870	\$ (12,190)
(C) <u>Purchased Power and Net Interchange (Non-Fuel)</u>					
15	8	Update fuel costs to proposed rate	\$ 2,946	\$ 2,946	\$ (1,127)
		Total Purchased Power and Net Interchange (Non-Fuel)	\$ 2,946	\$ 2,946	\$ (1,127)
(D) <u>Wages, Benefits, and Materials Expense</u>					
2	9	Normalize for storm costs	\$ 651	\$ 0	\$ 0
4	10	Annualize O&M (non-labor) to year end dollars	1,573	0	0
5	11	Normalize O&M (labor) to year end dollars	(10,494)	(21,510)	8,228
7	12	Annualize operating costs for Cliffside Unit 5 scrubber	1,009	543	(208)
12	13	Remove costs related to energy efficiency and demand side management program	(13,540)	(13,540)	5,179
14	14	Eliminate Contribution of Democratic National Convention Costs	(240)	(240)	92
15	15	Update fuel costs to proposed rate	2,549	2,549	(975)
19	16	Amortize voluntary opportunity plan costs	(23,755)	(23,755)	9,086
20	17	Amortize pension settlement costs	(7,220)	(7,220)	2,762
22	18	Update for increased benefits costs	9,442	6,484	(2,480)
	19	To remove O & M Expenses for Cliffside 6 and 7	0	(155)	59
	20	To remove non-allowable expenses	0	(4,984)	1,906
		Total Wages, Benefits, and Materials Expense	\$ (40,025)	\$ (61,828)	\$ 23,649
(E) <u>Depreciation and Amortization Expense</u>					
6	21	Amortize deferral balance related to Cliffside Unit 5 scrubber	\$ 7,476	\$ 5,784	\$ (2,212)
10	22	Annualize depreciation on year end plant balances	3,047	3,047	(1,165)

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Duke Retail Electric	ORS Retail Electric	ORS Retail Tax Adjustment
11	23	Accelerate depreciation on early generating plant retirements	6,455	0	0
16	24	Amortize current rate case costs	86	16	(6)
18	25	Eliminate amortization of nuclear insurance reserve	11,178	11,178	(4,276)
19	26	Amortize voluntary opportunity plan costs	7,918	7,863	(3,008)
20	27	Amortize pension settlement costs	2,407	573	(219)
21	28	Amortize deferral balance related to pension rider	2,684	2,513	(961)
25	29	Reflect depreciation for 2011 additions to plant in service	13,291	6,428	(2,459)
Total Depreciation and Amortization Expense			\$ 54,542	\$ 37,402	\$ (14,306)
(F) General Taxes					
1	30	To normalize for weather	\$ (300)	\$ 0	\$ 0
5	31	Normalize O&M labor costs	(66)	(70)	27
9	32	Annualize property taxes on year end plant balances	2,337	2,337	(894)
13	33	Annualize revenues for current rates	214	215	(82)
25	34	Reflect 2011 additions to plant in service	2,092	1,304	(499)
Total General Taxes			\$ 4,277	\$ 3,786	\$ (1,448)
(G) Income Taxes					
3	35	Reflect change from manufacturing tax deduction	\$ 925	\$ 925	\$ 925
17	36	Synchronize interest expense with end of period rate base	(7,307)	(6,406)	(6,406)
Total Income Taxes			\$ (6,382)	\$ (5,481)	\$ (5,481)
Total Income Taxes for all Adjustments					\$ 3,321
(H) Customer Growth					
37		To adjust operating revenues and expenses for customer growth	\$ 0	\$ 470	\$ 0

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

<u>Adj.#</u> <u>Per</u> <u>App.</u>	<u>Adj.#</u> <u>Per</u> <u>ORS</u>	<u>Description</u>	<u>Duke</u> <u>Retail</u> <u>Electric</u>	<u>ORS</u> <u>Retail</u> <u>Electric</u>
		(I) <u>Plant in Service</u>		
25	38	To adjust for plant additions to August 2011	\$ 402,242	\$ 189,946
		<u>Total Plant in Service</u>	\$ 402,242	\$ 189,946
		(J) <u>Accumulated Depreciation and Amortization</u>		
25	39	To adjust for accumulated depreciation associated with 2011 plant additions and annualized depreciation expense	\$ (22,793)	\$ (9,475)
		<u>Total Accumulated Depreciation and Amortization</u>	\$ (22,793)	\$ (9,475)
		(K) <u>Materials and Supplies</u>		
23	40	To adjust the fuel stock inventory balance	\$ 13,592	\$ 5,246
		<u>Total Materials and Supplies</u>	\$ 13,592	\$ 5,246
		(L) <u>Working Capital Investment</u>		
		To adjust for accounting and pro forma adjustments	\$ 0	\$ (3,745)
		<u>Total Working Capital</u>	\$ 0	\$ (3,745)
		(M) <u>Accumulated Deferred Income Taxes</u>		
25	42	To adjust for bonus depreciation on 2011 plant additions	\$ (76,603)	\$ (36,101)
26	43	To adjust for deferred taxes associated with the option payment from Jacksonville Electric Authority	419	419
		<u>Total Accumulated Deferred Income Taxes</u>	\$ (76,184)	\$ (35,682)
		(N) <u>Operating Reserves</u>		
18	44	To adjust for Nuclear Insurance dividends returned to customer	\$ 14,703	\$ 14,703
26	45	To reflect funds received from option payment from Jacksonville Electric Authority	(1,335)	(1,335)
		<u>Total Operating Reserves</u>	\$ 13,368	\$ 13,368
		(O) <u>Construction Work In Progress</u>		
24	46	To reflect the amount of CWIP the Company has invested in new electric plant	\$ 510,340	\$ 587,978
		<u>Total Construction Work In Progress</u>	\$ 510,340	\$ 587,978

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per ORS Description	Company Proposed Increase	ORS Proposed Increase
(P) <u>Operating Revenues for Proposed Increase</u>		
47 To adjust revenues for the proposed increase	\$ <u>215,522</u>	\$ <u>90,654</u>
(Q) <u>General Taxes</u>		
48 To adjust gross receipts and SC utility assessment taxes for the proposed increase	\$ <u>973</u>	\$ <u>411</u>
(R) <u>Income Taxes</u>		
49 To adjust Income Taxes for the proposed increase	\$ <u>82,065</u>	\$ <u>34,518</u>
(S) <u>Customer Growth</u>		
50 To adjust operating revenues and expenses for customer growth using the customer growth factor recommended by ORS Electric Department	\$ <u>0</u>	\$ <u>98</u>

Duke Energy Carolinas 2011 Rate Case
Proposed Revenues
for the test year ended December 31, 2010

Exhibit MAJ-1

Line No.	South Carolina	Present Revenues Annualized	Proposed Revenues Annualized	Proposed Revenue Increase	Percent Increase
		(a)	(b)	(c)	(d)
<u>Residential Service</u>					
1	RS	\$355,267,832	\$376,966,951	\$21,699,120	6.11%
2	RE	291,606,314	314,233,757	22,627,444	7.76%
3	ES	278,477	295,202	16,725	6.01%
4	ESA	221,900	238,790	16,890	7.61%
5	RT	617,935	648,808	30,873	5.00%
6	WC	369,386	388,140	18,753	5.08%
7	RB	8,651,035	9,459,994	808,959	9.35%
8	Total Residential Service	\$657,012,879	\$702,231,643	\$45,218,764	6.88%
<u>General Service</u>					
9	SGS	\$136,306,800	\$141,453,165	\$5,146,365	3.78%
10	LGS	95,203,200	100,457,294	5,254,094	5.52%
11	BC	259,961	280,992	21,031	8.09%
12	HP (LGS)	545,634	545,634	0	0.00%
13	HP (OPT-G)	286,579	286,579	0	0.00%
14	MP	8,311,111	9,446,935	457,304	5.50%
15	OPT	175,130,112	185,420,153	10,290,041	5.88%
16	Total General Service	\$416,043,397	\$437,212,234	\$21,168,836	5.09%
<u>Industrial Service</u>					
17	HP (OPT-I)	\$10,219,049	\$10,219,049	\$0	0.00%
18	I	46,739,693	49,090,323	2,350,631	5.03%
19	MP	10,565,306	11,146,771	581,465	5.50%
20	OPT	377,782,595	397,165,866	19,383,272	5.13%
21	PG	508,013	534,107	26,094	5.14%
22	Total Industrial Service	\$445,814,656	\$468,156,117	\$22,341,461	5.01%
<u>Lighting</u>					
23	PL	\$5,429,942	\$5,871,581	\$435,037	8.01%
24	OL	19,867,586	20,884,155	1,016,569	5.12%
25	FL	8,076,951	8,518,933	441,982	5.47%
26	GL	23,892	25,978	2,081	8.71%
27	TS	336,048	365,385	29,270	8.71%
28	Total Lighting	\$33,734,419	\$35,659,368	\$1,924,939	5.71%
29	Total Retail	\$1,552,605,351	\$1,643,259,351	\$90,654,000	5.84%

Duke Energy Carolinas 2011 Rate Case
Proposed Revenues
for the test year ended December 31, 2010

Exhibit MAJ-2

Line No.	Rate Class	Rate Base (a)	Net Operating Income (b)	Current ROR (c)	Proposed Increase (d)	Taxes (e)	Net Income (f)	Net Income After Increase (g)	Proposed ROR (h)
1	Residential	\$1,838,199	\$115,270	6.27%	\$45,219	\$17,423	\$27,796	\$143,066	7.78%
2	General Service	1,063,848	75,471	7.09%	21,169	8,156	13,012	88,483	8.32%
3	Industrial	981,563	67,298	6.86%	22,341	8,608	13,733	81,031	8.26%
4	Lighting	118,324	10,452	8.83%	1,925	742	1,183	11,635	9.83%
5	Total Retail	\$4,001,924	\$268,491	6.71%	\$90,654	\$34,929	\$55,725	\$324,216	8.10%

Attachment C

Capital Additions	<u>TOTAL</u>
Buck Combined Cycle	\$ 20
Bridgewater Powerhouse	\$ 4
Cliffside Unit 6	\$ 125
Dan River Combined Cycle	\$ 118
Hydro Relicensing, Linville Dam	\$ 17
Fossil Regulatory Projects	\$ 2
Oconee HELB	\$ 43
Oconee Life Extension	\$ 9
Nuclear Refurbishment and Upgrades	\$ 73
Nuclear Safety Compliance	\$ 2
Spent Fuel Storage Investment	\$ 4
TOTAL CAPITAL ADDITIONS	<u>\$ 417</u>
 Approximate SC Allocation percent	 <u>23.74%</u>
SC Revenue Requirement by Year	<u>\$ 99</u>
 Maximum Allowed per Settlement	 <u>\$ 80</u>

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2011- 271-E

IN RE: Application of Duke Energy Carolinas, LLC for)
 Authority to Adjust and Increase Its Electric Rates) **CERTIFICATE OF**
 and Charges) **SERVICE**
)

This is to certify that I, Faith E. Shehane, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Timika Shafeek-Horton, Esquire
Duke Energy Carolinas, LLC
Post Office Box 1006/EC03T
Charlotte, NC, 28201

Heather S. Smith, Esquire
Duke Energy Carolinas, LLC
550 South Tryon Street, DEC 45 A
Charlotte, NC, 28202

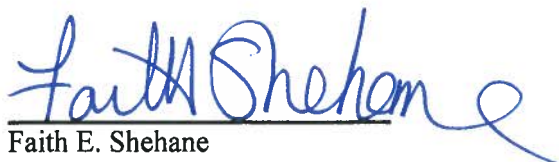
Frank R. Ellerbe, III, Esquire
Bonnie D. Shealy, Esquire
Robinson, McFadden & Moore, P.C.
Post Office Box 944
Columbia, SC, 29202-0944

Scott Elliott, Esquire
Elliott & Elliott, P.A.
1508 Lady Street
Columbia, SC, 29201

Holly Rachel Smith, Esquire
Russell W. Ray, PLLC
Hitt Business Center
3803 Rectortown Road
Marshall, VA, 20115

Thomas L. Moses, Esquire
Monahan and Moses, LLC
13-B West Washington Street
Greenville, SC, 29601

Richard L. Whitt, Esquire
Timothy F. Rogers, Esquire
Austin & Rogers, P.A.
Post Office Box 11716
Columbia, SC, 29201


Faith E. Shehane

November 30, 2011
Columbia, South Carolina